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Sources of State and Local Revenue

STATE REVENUE

- ☐ Transportation Funds
 - ☐ Highway Use Tax
 - ☐ Motor Fuels Tax
 - ☐ Non-Tax Revenue
- ☐ General Fund
 - ☐ Personal Income Tax
 - ☐ Corporate Income Tax & Franchise Tax
 - ☐ State Sales & Use Tax
 - ☐ Other Taxes
 - ☐ Non-Tax Revenue

LOCAL REVENUE

- ☐ Property Taxes
- ☐ Local Option Sales & Use Tax
- ☐ Other Taxes
- ☐ Non-Tax Revenue

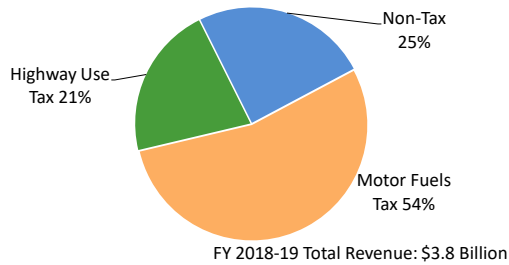
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State Transportation Revenue by Source



Source: North Carolina Department of Transportation

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Transportation Funds: Taxes



Motor Fuel Tax
36.1¢/gallon

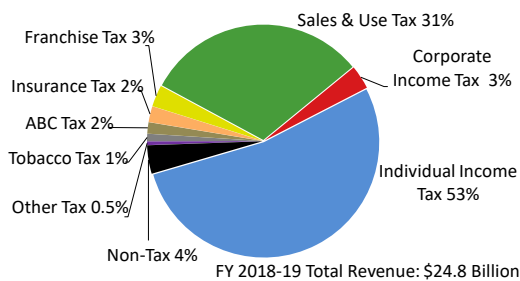


Highway Use Tax
3% tax on retail value of vehicle assessed each time a title is transferred

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General Fund Revenue by Source

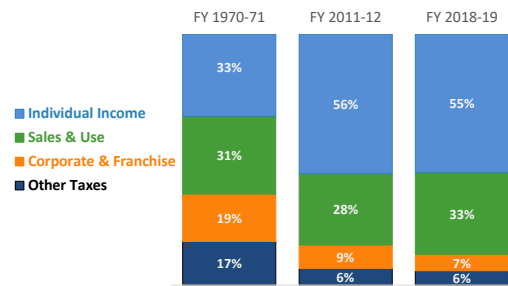


Source: North Carolina General Assembly Fiscal Research Division

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North Carolina's Changing Tax Structure



Source: North Carolina General Assembly Fiscal Research Division

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Fiscal Impact Of 2019 Session Tax Changes

Fiscal Year	FY 2019-20	FY 2020-21
Personal Income	(\$80.3)	(\$185.0)
Sales & Use	\$62.1	\$118.8
Corporate Income & Franchise Taxes	(\$1.0)	\$3.1
Total Adjustments	(\$19.2)	(\$63.1)

Note: Table includes changes to both General Fund and Highway Fund taxes

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Quick Tax Terminology Refresher

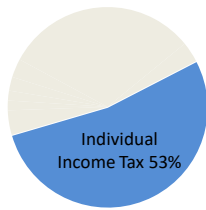
Tax Rate x Tax Base – Credits = Tax Liability

- ☐ **Tax Base:** All of the items or activities subject to tax
- ☐ **Tax Rate:** Percentage of the tax base owed in taxes
- ☐ **Tax Liability:** Amount of tax owed
- ☐ **Deductions** reduce the tax base
- ☐ **Credits** directly reduce tax liability

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General Fund: Individual Income Tax



FY 2018-19: \$13.2 Billion

- 4.7 million TY 2018 returns
- More than 20% of returns have \$0 in tax liability
- Calculation is simpler than Federal taxes:
 - Flat rate
 - Four itemized deductions
 - Few credits and deductions

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Individual Income Tax: Rate

5.25 %

- Flat rate
- Applies to all types of income, including capital gains
- Reduced from 5.499% for 2018 tax year
- Before 2014 tax year, there were three marginal tax rates: 6%, 7%, and 7.75%

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Individual Income Tax: Base

North Carolina Taxable Income

- = (Federal Adjusted Gross Income
 - Amounts exempt from State tax
 - + Amounts taxed by the State but not by the feds
 - Itemized or Standard Deduction
 - Child Deduction)
- × % of income derived from NC sources

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Standard vs. Itemized Deduction

STANDARD DEDUCTION

- Amount Determined by Filing Status
 - Joint Filers: \$21,500
 - Single Filers: \$10,750
 - Head of Household: \$16,125
- Increased by 7.5% in TY 2020

ITEMIZED DEDUCTION

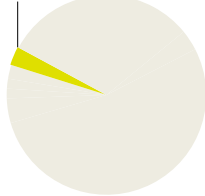
- Charitable Contributions
 - Federal rules apply
- Medical and Dental Expenses
 - Deduction allowed for expenses that exceed 10% of AGI for 2019/2020
 - Federal threshold is now 7.5%
- Capped at \$20,000
 - Home mortgage interest
 - Property taxes paid on real estate

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General Fund: Franchise Tax

Franchise Tax 3%



FY 2018-19: \$0.7 Billion

- Tax imposed for:
 - The privilege of engaging in business
 - The benefit and protection received from the government and laws of NC in doing business
- Paid by:
 - C corporations (about 80,000)
 - S corporations (about 160,000)
 - Limited liability companies (LLC) pay \$200 annual report filing fee in lieu of Franchise Tax

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Franchise Tax: Rate

0.15%
(\$1.50 per \$1,000)

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Franchise Tax: Base

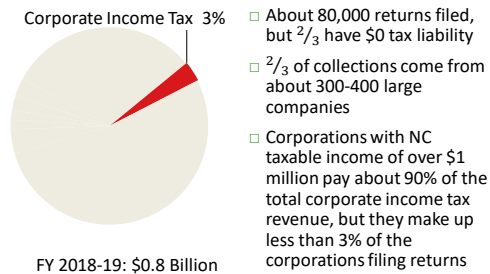
The rate is applied to the highest of three alternate bases:

1. Net Worth apportioned to NC using the apportionment percentage determined for income tax
2. Book value of NC real and tangible personal property, less outstanding debt created to acquire or improve the real property
3. 55% of the appraised value of NC real and tangible personal property

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General Fund: Corporate Income Tax



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Corporate Income Tax: Rate

2.5 %

- Reduced from 3.0% for tax year 2018
- For tax year 2013, the rate was 6.9%

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Corporate Income Tax: Base

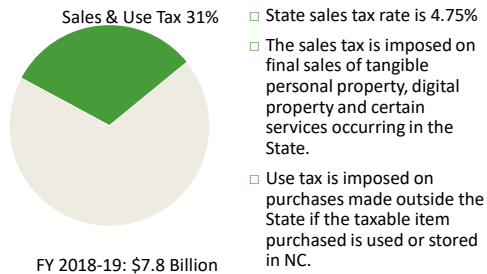
Income subject to North Carolina tax

- = (Federal Taxable Income
- Amounts exempt from State tax
- + Amounts taxed by the State but not by the feds)
- × % of income apportioned to NC

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General Fund: State Sales & Use Tax



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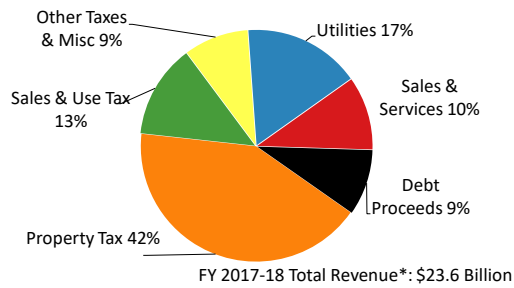
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LOCAL REVENUES

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Local Revenue by Source

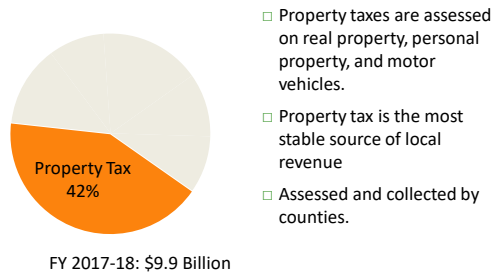


Source: North Carolina Department of State Treasurer
*Intergovernmental transfers are not included

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Local Revenue: Property Tax



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Property Tax: Rate

- Local governments set their own property tax rate
- Local property tax rates are calculated against each \$100 in value
 - Average: 0.68 (counties), 0.44 (municipalities)
 - Highest: 1.00 (Scotland)
 - Lowest: 0.31 (Carteret)
- Lowest rates in mountain and coastal counties

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Property Tax: Base

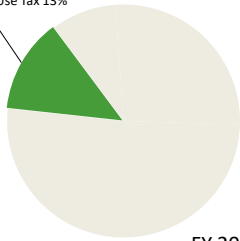
- N.C. Constitution gives the General Assembly sole power to classify property for taxation
- Classes of property must be taxed uniformly
- Only the General Assembly has authority to exempt classes of property and exemptions must be on a State-wide basis
- Real property must be revalued at least every 8 years

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Local Revenue: Sales & Use Tax

Sales & Use Tax 13%



FY 2017-18: \$3.1 Billion

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